



BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP  
Chairman  
GARY PIERCE  
Commissioner  
BRENDA BURNS  
Commissioner  
BOB BURNS  
Commissioner  
SUSAN BITTER SMITH  
Commissioner

Arizona Corporation Commission  
**DOCKETED**  
JUL 30 2014

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IN THE MATTER OF THE APPLICATION  
OF TUCSON ELECTRIC POWER  
COMPANY'S REQUEST FOR APPROVAL  
OF RIDER R-8 LOST FIXED COST  
RECOVERY TARIFF ADJUSTMENT.

DOCKET NO. E-01933A-12-0291  
DECISION NO. 74593  
ORDER

Open Meeting  
July 22, 2014 and July 23, 2014  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "Company") is certified to provide electric service as a public service corporation in the State of Arizona

2. On May 15, 2014, TEP filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery Mechanism ("LFCR") adjustment to be effective July 1, 2014. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy efficiency ("EE") savings and distributed generation ("DG") that is authorized by the Commission and determined to have occurred.

3. TEP is requesting that the LFCR rate be set at 0.4149 percent for energy efficiency and 0.3126 percent for distributed generation, for a total of 0.7275 percent.

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**Description of the LFCR**

4. In Decision No. 73912 (June 27, 2013), the Commission approved the LFCR which provides for the recovery of lost fixed costs, as measured by a reduction in non-fuel revenue, associated with the amount of EE savings and DG that is authorized by the Commission and determined to have occurred. Costs to be recovered through the LFCR include the portion of transmission and distribution costs included in base rates exclusive of the Customer Charge and 50 percent of the demand rates in effect.

5. The LFCR also includes an annual one percent year-over-year cap based on Applicable Company Revenues ("ACR"). If the annual incremental LFCR adjustment results in a surcharge in excess of one percent, in total, of ACR, any amount in excess of the one percent cap will be deferred for collection until the next year. Any deferred amounts will be collected in a subsequent year or rolled into the next rate case, whichever occurs first. Where the one percent cap limits the recovery of deferrals in any program year and thus moves their recovery to the following year, a first-in, first-out ("FIFO") approach will be applied. In connection therewith, the new surcharges billed in the following year will first recover any such carried-over deferrals, and then recover new deferrals arising in that following year. The one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its successor publication will be applied annually to any deferred balance. The interest rate shall be adjusted annually and shall be that annual rate applicable to the first business day of the calendar year.

6. The Plan of Administration ("POA") describes how the LFCR operates. By May 15<sup>th</sup> of each year, TEP will file the calculated Annual LFCR adjustments, including all Compliance Reports, with the Commission for the previous year. Staff will use its best efforts to process the matter based on the results of the Company's annual EE/DSM and Renewable Energy Standard and Tariff ("REST") filing such that the new LFCR Adjustments may go into effect by July 1<sup>st</sup> of each year. However, the new LFCR Adjustments will not go into effect until approved by the Commission.

7. Customers taking service under rate schedules Lighting Service (PS-50), Water Pumping Service (GS-43), Traffic Signal and Street Lighting Service (PS-41), and Large Light and Power Services (LLP-14, LLP-90) are excluded from the LFCR. Residential customers can choose a

Fixed Cost Option instead of the variable LFCR adjustment. The Fixed Charge Option is graduated by kWh monthly usage and is designed to replicate the effects of the LFCR. Customers who choose the optional fixed rate will incur an added incremental charge to the monthly Customer Charge in the applicable residential rate schedule. The total dollars paid as an incremental amount added to the otherwise effective Customer Charge will be used to reduce the total Lost Fixed Cost Revenue recovered as part of the LFCR adjustment. Customers choosing this fixed option within the first 12 months subsequent to the initial effective date of the LFCR will be allowed to change back to the volumetric option one time without any penalties. After the initial 12-month period, customers will be required to stay on which ever option they choose for 12 full months before a change can be made.

#### Staff Analysis

8. Staff has reviewed the data TEP used in the calculation of the LFCR rate. Staff has found that the LFCR percentages are calculated in accordance with the POA as approved by the Commission. This calculation is shown in Schedules 1 through 5 (Attachment A) of the application. According to the calculations, and in accordance with the POA, the LFCR charge would be 0.4149 percent for EE and 0.3126 percent for DG, thus resulting in an approximate recovery of \$5.43 million for the 12-month collection period beginning August 1, 2014.

9. Staff has noted that TEP's 12-month collection period should begin July 1, 2014. However, due to Open Meeting ("OM") schedules the earliest possible date in which the application could be approved, would allow the Company to begin its collection period August 1, 2014. Staff believes the delay in implementation could cause an under-collection of the approved Lost Fixed Cost Revenue. Staff believes the Company should be allowed to true up the difference between the approved Lost Fixed Cost Revenue and the collected Lost Fixed Cost Revenue in the 2015 LFCR adjustment. However, the current POA does not provide a balancing account or practical method for implementing a True-Up. Staff recommends that TEP file an amendment to the POA to provide for a balancing account.

10. In Attachment C of the application, TEP provided bill impact calculations for residential customers subject to the LFCR. TEP has calculated that for the average residential

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1 customer, using an average of 762 kWh per month, the customer's bill would increase by \$0.59 per  
2 month.

3 11. In Decision No. 73912, the Commission ordered that TEP file along with its LFCR  
4 Annual Adjustment, a Full Revenue Decoupling Report ("FRDR") showing what rates and average  
5 utility bills would have been for residential, small commercial and large industrial customers, if a full  
6 revenue decoupling mechanism had been approved. The Company provided the FRDR confidentially  
7 to Staff. However, the data used to formulate the 2014 FRDR encompassed only half of the year;  
8 consequently, at this time Staff does not believe the decoupling mechanism can effectively be  
9 compared to the LFCR. TEP's FRDR concluded that under a fully decoupled mechanism the  
10 Company would have a total revenue adjustment of \$12.1 million with an average customer bill impact  
11 of 1.348 percent, resulting in an average residential customer bill increase of \$1.10 per month. Staff  
12 has noted that under such a fully decoupled mechanism, all customers are considered as a single group  
13 for purposes of determining the adjustment rate.

14 **Staff Recommendations**

15 12. Staff has recommended that an LFCR rate of 0.4149 percent for EE and 0.3126  
16 percent for DG be approved and become effective August 1, 2014.

17 13. Staff has recommended that any approved Lost Fixed Cost Revenues either under-  
18 collected or over-collected, in the immediate 12-month collection period, be Trued-Up in the  
19 proceeding LFCR adjustment.

20 14. Staff has recommended that TEP file by September 30, 2014, as a compliance item in  
21 this docket, for Staff approval, an updated Plan of Administration for its LFCR mechanism to  
22 incorporate a Balancing Account.

23 15. Staff has recommended that TEP, incorporate language into its existing POA which  
24 defines the aforementioned Balancing Account. Suggested language is as follows:

25 "Balancing Account – An account to track the difference between allowed Lost Fixed Cost  
26 Revenue and actual amounts billed by the Company through the LFCR adjustment. The  
27 balancing account will be reflected in Schedule 2 of the LFCR Compliance Report and shall be  
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3 In addition to the suggested language, Staff has recommended that TEP incorporate changes to  
4 Schedule 2 as outlined in Exhibit 1 of the Staff Memorandum and make all other conforming changes  
5 to the corresponding schedules.

7           1. Tucson Electric Power Company is a public service corporation within the meaning of  
8 Article XV, section 2 of the Arizona Constitution and A.R.S. §§ 40-250,40-251,40-367,40-202,40-321,  
9 and 40-361.

12           3.       The Commission, having reviewed the filing and Staff's Memorandum dated June 27,  
13   2014, concludes that it is in the public interest to grant approval as proposed and discussed herein.

IT IS THEREFORE ORDERED that LFCR rates of 0.4149 percent for EE and 0.3126 percent for DG are hereby approved for Tucson Electric Power Company and shall become effective August 1, 2014.

21 IT IS FURTHER ORDERED that Tucson Electric Power Company shall file by September  
22 30, 2014, as a compliance item in this docket, for Staff approval, an updated Plan of Administration  
23 for its LFCR mechanism to incorporate a Balancing Account.

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IT IS FURTHER ORDERED that Tucson Electric Power Company incorporate language into its existing POA which defines the aforementioned Balancing Account.

IT IS FURTHER ORDERED that Tucson Electric Power Company shall incorporate changes to Schedule 2 as outlined in Exhibit 1 of the Staff Memorandum and make all other conforming changes to the corresponding schedules.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

**EXCUSED**  
COMM. BURNS

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 30<sup>th</sup> day of July, 2014.

JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:EMV:sms\RRM

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# Exhibit A

## Tucson Electric Power Company

## Lost Fixed Cost Recovery Mechanism

## Schedule 2: LFCR Annual Incremental Cap Calculation

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Line No.	(A) LFCR Annual Incremental Cap Calculation	(B) Reference	(C) Totals
1	2013 Applicable Company's Revenues		\$
2	Allowed Cap %		1.00%
3	Maximum Allowed Incremental Recovery	(Line 1 * Line 2)	\$ -
4	Total Lost Fixed Cost Revenue	Schedule 3, Line 57, Column C	\$
5	Total Deferred Balance from Previous Period	Previous Filing, Schedule 2, Line 11, Column C	-
6	Annual Interest Rate		0.00%
7	Interest Accrued on Deferred Balance	(Line 5 * Line 6)	-
8	Total Lost Fixed Cost Revenue Current Period	(Line 4 + Line 5 + Line 7)	\$ -
9	Lost Fixed Cost Revenue from Prior Period	Previous Filing, Schedule 2, Line 13, Column C	\$ -
10	Lost Fixed Cost Revenue - Billed <sup>1</sup>		\$ -
11	LFCR Balancing Account	(Line 9 - Line 10)	\$ -
12	Total Incremental Lost Fixed Cost Revenue for Current Year	(Line 8 - Line 9 + Line 11)	\$ -
13	Amount in Excess of Cap to Defer	(Line 12 - Line 3)	\$ -
14	Incremental Period Adjustment	[(Line 12 - Line 13)/ Line 1]	0.00%
15	Total Lost Fixed Cost Revenue for Current Period	(Line 8 + Line 11 - Line 13)	\$ -

<sup>1</sup> Amount billed to customers for the collection period of 20XX